INTERMEDE
INVESTMENT PARTNERS

Intermede Global Equities Fund

Intermede Global Equities Fund: emphasising quality growth, always

About Intermede: Intermede Investment Partners Limited (Intermede) is a fundamental, bottom-up boutique fund management business specialising in global equities based in London, UK. It is the investment manager of the Intermede Global Equities Fund (Fund) issued by responsible entity, Antares Capital Partners Limited. Intermede looks for investment opportunities from around the world for the Fund. Its investments are diversified across countries in both developed and emerging markets.

Every business has a creation story. Intermede Investment Partners was founded in 2014, but its beginnings can be traced back to when founder and CEO Barry Dargan worked with Chris Smith (Investment Analyst, Global Consumer) and Nicholas Midgley (Investment Analyst, Global Capital Goods) at Artisan Partners, a large US-based investment firm.

As Barry tells it: "We'd been a good team together at Artisan and could see the logic of bringing that to a new place."

Apart from the obvious intellectual and personal chemistry between the three, theirs was a productive collaboration that delivered strong investment returns for clients.

Barry essentially developed the investment philosophy and process that underpinned that success, earlier in his career at MFS Investment Management, the US investment giant, where he spent 14 years.

In short, "It's about buying very high-quality businesses with wide moats around them that protect them from competition. And then making sure that you bought these great companies at a price that doesn't overvalue them," explained Barry.

Think of it as GARP with a twist. Rather than growth at a reasonable price, for Intermede, it's growth at the right price.

This approach served Barry's clients well in his previous professional incarnations, and seems to be serving current clients well now too.

Focus defines Intermede and its investment team that also includes James Kim (Investment Analyst, Global Technology & Services), Charles Cooper (Investment Analyst, Global Healthcare), and Richard Thompson (Investment Analyst, Global Financials).

The kind of companies that catch Intermede's collective eye typically exhibit 5 percent revenue growth on average annually, 10 percent EPS growth and 15 percent ROE or more.

When pressed further on what the Intermede team hang their hats on when it comes to investing, the key metric identified is a free cash flow yield of 3-4 percent or better on a prospective unlevered basis.

As Barry puts it: "If you're getting 3-4 percent in terms of real cash returns like that, you're in a pretty good place because actually there aren't that many things in the world that are providing those levels of yields right now."

Only a small, select group of companies get a look-in. When asked how Intermede's team covers the global equity universe, it boils down to focus and discrimination, as Barry explains.

"When we run our screen and see how many companies have consistently delivered those numbers. ……it turns out there's about 500 companies. I've been running this screen for over 15 years. We reckon there's about 5-6 percent of world companies delivering on those kinds of metrics. It's a very rarefied group."

The kinds of companies that interest Intermede typically have very strong market positions in their niche. The niche will likely also be growing, and applicable globally.

The company may also have some form of protection, such as a patent (although they can, of course, expire), which may come from the fact that it was the first mover in that space. Other features might include being globally dominant, so their scale is overwhelming and competitors are unable to match them in terms of scale and pricing.

Asked to name some companies that meet Intermede's investment criteria, Barry starts off with a stock participating in India's rise — HDFC, a Mumbai-headquartered Indian banking and financial services company.

According to Barry, HDFC is benefitting from structural tailwinds such as the fact that India has 600 million people under age 30, and so very rapid household formation is underway.

Indians have typically been very conservative when it comes to borrowing money. But as incomes grow and wealth rises, there's been a proliferation of financial services to this group with HDFC well-positioned to monetise this.

HDFC was listed in the early 1990s and the stock has gone up around 700-fold in Rupee terms and 180 times in USD terms.

The HDFC story is an illustration of the kind of growth opportunities that draw Intermede.

It's still early days in India's economic modernisation and so Intermede foresees a great growth runway ahead for HDFC and other companies participating in the country's transformation.

Some other companies getting Intermede's attention are probably better known, including Alibaba, China's leading internet/e-commerce company, a sort of Amazon of China.

Then there's, Nestlé the world's largest food manufacturer, which has been going for over a hundred years and still manages to grow earnings most years in the low to mid-teens.

Quality in good times and bad. Intermede's emphasis on dominant, quality growth companies will probably engender some comfort among investors.

However, the global share market has been good to investors over the past decade and some market commentators worry that a downturn is around the corner.

So how might Intermede fare in the event of a share market downturn?

Barry is definitive on this: "We've looked back on portfolios I've managed over the past 17 years, and we've assessed what they call the upside and downside capture ratios. What we've noticed is that in down months, in other words on average when the stock market goes down, our portfolio has tended to outperform. Touch wood, at those times, we've generally gone down less than the market."

"And then in up months, when the stock market's going up on average, we've tended to go up more than the market. So, we can't say under every situation we're going to outperform, but our "batting average", is pretty decent."

"And I think intuitively, that's right because if you're being very careful about the price you're paying for a great company, it's likely to have some downside protection there. Because when things go into the can, high quality stock tends to hold up better, particularly if you haven't overpaid for them. The stock that really gets clobbered is the really highly valued stock that doesn't have downside protection."

"And then equally, when the market turns, it's going up, everybody wants to own the best house on the street, so that tends to outperform. And that's historically been the pattern," concluded Barry.

Intuitively this makes sense. Remember the number of times the term 'flight to quality' pops up when markets are unsettled and investor nerves jangled. By the same token, in more 'normal' times, investors tend to gravitate to quality growth stocks because of the earnings confidence generally associated with such companies.

Looks like Intermede's investment philosophy is both a sword and shield.

Barry Dargan
CEO and Portfolio Manager

Chris Smith
Investment Analyst, Global Consumer

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